

Appendix 1  
to the Report on the activities  
of the Supervisory Board of Bank Ochrony Środowiska S.A. for 2023

**Report on the assessment of the Bank's standing in 2023 on a consolidated basis, including assessment of the internal control, risk management and compliance systems and the internal audit function**

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The Supervisory Board's assessment of the Bank's standing in 2023 on a consolidated basis, including assessment of the internal control, risk management and compliance systems and the internal audit function, is based on the corporate governance standards set out in Best Practice for GPW Listed Companies 2021.

The Supervisory Board assessed the Bank's standing in 2023 based on the materials reviewed during the year at Supervisory Board meetings, including in particular:

- monthly reports on the Bank's economic and financial condition,
- quarterly reports from the compliance function and the internal audit function's reports on the results of audits and inspections, as well as other materials and reports on the Bank's operations, including in particular on risk management,
- analysis of the Directors' Report on the operations of the BOŚ Group in 2023, prepared jointly with the Directors' Report on the operations of the Bank,
- analysis of the separate full-year financial statements of BOŚ S.A. for the year ended 31 December 2023 and the consolidated full-year financial statements of the BOŚ Group for the year ended 31 December 2023,
- The auditor's report on the audit of the financial statements for 2023 referred to above as well as information from the auditor concerning the course and results of the audit.

## 1. Brief assessment of the Bank's and the BOŚ Group's standing in 2023

In its assessment of the Bank's and the BOŚ Group's standing in 2023, the Supervisory Board takes into account the following facts:

- 1) In 2023, the BOŚ Group earned a net profit of PLN 78.4 million, compared with PLN 128.2 million in 2022.  
Net interest income was up by PLN 52.6 million year on year. The most significant growth was seen in interest earned on investment debt securities, as well as interest income from institutional and retail customers. The primary factor contributing to improved interest income was higher WIBOR rates compared with 2022, due to the Monetary Policy Council's series of interest rate hikes implemented in the second and third quarters of 2022.
- 2) The Group's net fee and commission income was PLN 131.5 million, a year-on-year increase of PLN 4.0 million. The principal driver behind the increase was higher commission income from brokerage services and loan-related fees.
- 3) Administrative expenses of the Group were PLN 518.2 million, up by PLN 22.1 million, or 4.5%, compared with 2022. Their growth was chiefly attributable to employee benefits expense, which rose due to the job evaluation process conducted at the Bank to, inter alia, bring the salary levels for positions within the Bank in line with market standards. Another significant driver of administrative expenses was material costs.
- 4) The net effect of legal risk related to foreign-currency mortgage loans was PLN -284.4 million, compared with PLN -144.3 million in 2022. The change is due to the modifications in the parameters of the provision estimation model, implemented in response to a notable increase in the number of new cases following the judgments issued by the CJEU, which are unfavourable to banks.
- 5) Interest margin on total assets increased to 3.7% from 3.6% the year before, due mainly to higher market interest rates compared with the rates at the beginning of 2022.
- 6) The cost/income (C/I) ratio improved to 51.3%, compared with 52.7% in 2022, which is attributable to a higher rate of income growth compared to costs. The C/I ratio calculated for the Bank was 49.1% in 2023.
- 7) Return on equity (ROE) was 3.8% and return on assets (ROA) at 0.4%, while in 2022 the ratios were 6.7% and 0.6%, respectively.
- 8) The share of amounts due from customers with indications of impairment in the entire portfolio measured at amortised cost was 13.5% as at 31 December 2022, compared with 14.9% as at the end of 2023.
- 9) As at the end of 2023, the Bank's share in the Polish banking sector (based on the Polish Financial Supervision Authority's data on the banking sector, including foreign branches) was as follows:
  - 0.7% in terms of the total assets, compared with 0.8% at year-end 2022,
  - 1.2% in terms of deposits from the non-financial sector, compared with 1.1% at year-end 2022,
  - 0.7% in terms of loans and advances, which remained unchanged from year-end 2022.

- 10) On 6 October 2023, Fitch Ratings maintained its long-term rating (IDR) for the Bank unchanged at 'BB-', with a stable outlook. Currently, the Bank's ratings are as follows:
- Long-Term Foreign Currency Issuer Default Rating at 'BB-', outlook stable,
  - Short-Term Foreign Currency Issuer Default Rating at 'B'.

The Supervisory Board emphasises that:

- 1) As at 31 December 2023, the capital adequacy ratio of the BOŚ Group remained above the levels recommended by the Polish Financial Supervision Authority, despite a high amount of write-offs for legal risk related to mortgage loans of PLN (-284.4) million. The Tier 1 capital ratio was 15.17%, compared with 14.11% at year-end 2022, and the total capital ratio was 16.27%, compared with 14.95% the year before. The Tier 1 capital ratio and the TCR of the Bank on a standalone bases were, respectively, 15.50% (year-end 2022: 14.16%) and 16.71% (year-end 2022: 15.05%), while the minimum levels recommended by the PFSA were 9.93% for the Tier 1 capital ratio and 11.93% for the TCR. This means that both the Bank and the Group companies maintained capital safety ratios significantly above the minimum regulatory levels.
- 2) Despite the record-high provisions for foreign-currency mortgage loans, the adverse effects of war in Ukraine and the cost of 'loan repayment holidays', in 2023 the Group reported:
  - net interest income of nearly PLN 811 million, compared with PLN 758.3 million in 2022, up by PLN 52.6 million year on year;
  - an increase in interest margin from 3.6% in 2022 to 3.7% in 2023,
  - an improved cost/income (C/I) ratio, which fell from 52.7% in 2022 to 51.3% in 2023.
- 3) In 2023, the Bank reported a 32.6% growth in sales of loans financing environmental projects. The vast majority (in value terms) of the new green loans were made to institutional customers (98%). Loans for construction sector projects represented the largest share of the total (40% of total green loans in volume terms).
- 4) In 2023, following improvement of its overall ESG risk rating to 12.2 („Low Risk”), compared with 14.2 („Low Risk”) in 2022, the Bank ranked in the top 6% of the best-rated banks and the top 5% of leading companies globally. 'Low Risk' signifies low exposure to the risk of experiencing adverse financial impacts from environmental, social and governance factors.
- 5) In 2023, the Bank received the Top Employer 2023 Polska award, affirming BOŚ's effective implementation of strategies aimed at enhancing the work environment and prioritising employee satisfaction and well-being. BOŚ strives to be a reliable and caring employer, committed to implementing HR practices that align with the needs of its employees and incorporate the latest industry trends. The Bank was recognised by the Top Employer Institute for various aspects, including its commitment to a green mission, strong values, sustainability efforts, pro-environmental activities, care for the natural environment, community involvement, adherence to ethical principles, HR strategy, leadership development, employer branding,

recruitment process, diversity initiatives, onboarding, and employee development.

- 6) The Bank's pro-environmental activities were recognised and honoured with important, recognised awards and distinctions:
- the Bank was awarded a Silver CSR Leaf by the *Polityka* weekly,
  - eight practices of BOŚ were included in the annual best practice report prepared by the Responsible Business Forum,
  - BOŚ received a distinction in the Polish Diversity Awards competition,
  - BOŚ was once again named a laureate of the Social Responsibility Leaders programme,
  - BOŚ received the title of Mediation Friendly Financial Institution, earning a place among 14 distinguished national financial institutions, including insurers and banks,
  - BOŚ was once again awarded the Green Office certificate: independent auditors from the international Foundation for Environmental Education recognised BOŚ for the third consecutive time as an organisation with ecological office management standards,
  - BOŚ and the BOŚ Foundation were recognised for the most interesting CSR initiatives – their World in the Eyes of the Young competition was noticed and appreciated among CSR activities.

With its strong market position and high-quality services, the BOŚ DM brokerage house once again won numerous industry awards. In 2023, DM BOŚ received the highest rating of three stars in the 20th edition of the 2022 Brokerage House Ranking organised by the Association of Individual Investors as part of the National Investor Survey.

Additionally, the Polish Power Exchange awarded DM BOŚ the Platinum Megawatt statuette for its active participation in the development of exchange products. The Warsaw Stock Exchange acknowledged DM BOŚ with an award for the highest activity in the equity futures market.

Once again, based on surveys conducted among customers by the Management Observatory Foundation, DM BOŚ received the title of Customer Friendly Company. Furthermore, DM BOŚ was awarded the title of Best Workplace in IT as part of the Audit survey.

The Supervisory Board monitored the potential impact of changes in the external environment on the Bank's business. In 2023, the Bank tracked the economic and market situation, in particular the risk of major sudden external events likely to have a significant indirect impact on the Bank's overall condition. Despite the ongoing war in Ukraine and the associated stress scenario, the Bank successfully navigated through the situation without encountering any liquidity issues or adverse impacts on other financial risks.

The Supervisory Board gives a positive assessment of the Bank's offering of special solutions to customers under national and regional operational programmes:

- My EV – the Bank is implementing an agreement with the National Environmental Protection and Water Management Fund for subsidised

leasing of zero-emission vehicles under the My EV Priority Programme. The purpose of the Programme is to support the purchase of zero-emission vehicles. The Bank has at its disposal a total of PLN 500 million, which is intended for use between 2021 and 2025. As at 31 December 2023, 30 leasing companies had entered into cooperation agreements with the Bank. The purpose of the Programme is to support the purchase of zero-emission vehicles.

- ELENA grant – pursuant to the agreement signed between the Bank and the European Investment Bank (EIB) under the ELENA initiative, the Bank received a grant of EUR 2.6 million. Eligible for support will be public sector entities (local government units and municipal companies), housing sector entities (housing cooperatives and housing communities) and businesses (including SMEs).

By year-end 2023, subsidies were disbursed to 16 investors, facilitating the execution of 37 energy efficiency-enhancing projects, cumulatively valued at PLN 128.45 million.

- JESSICA Initiative – under agreements with the EIB, the Bank acts as the manager of the Urban Development Fund in selected provinces.
- JEREMIE Initiative – under agreements with the EIB, the Bank has been acting as a JEREMIE Financial Intermediary in the West Pomeranian region since 2017.
- BGK portfolio guarantees.

The Supervisory Board placed significant emphasis on addressing the issue of housing loans denominated in Swiss francs. The Bank offers the Compromise and Settlement Programme for customers repaying foreign currency-linked mortgage loans under rules proposed by the Chair of the Polish Financial Supervision Authority. The Programme was launched on 31 January 2022. Until 31 December 2023, the Bank received 1,336 applications for settlement concerning foreign currency mortgage loans. The outstanding balance of those loans was PLN 108 million. 645 settlement agreements were signed.

On 15 December 2023, the Supervisory Board approved the BOŚ S.A. Strategy for 2024–2026. In accordance with the Strategy, the Bank seeks to attain sustainable profitability by executing critical strategic initiatives and to enhance its role as a specialist institution in financing environmental transformation and sustainable development. This is reflected in the Bank's mission: "We provide comprehensive finance and support for initiatives driving the transition towards a greener future", and vision: "BOŚ is the premier specialist bank for corporate customers aiming to invest in projects that foster environmental sustainability. We are a valued partner in banking services."

The Group Recovery Plan of the BOŚ Group was updated, and, after approval by the Supervisory Board, submitted to the Polish Financial Supervision Authority (PFSA) in October 2023. The PFSA approved the Group Recovery Plan update in January 2024.

In evaluating the Bank's performance in 2023, specifically the delivery of the consolidated profit of PLN 78.4 million, the Supervisory Board points out that:

- further work is required to ramp up sales and, consequently, increase the Bank's revenue, interest margin, and loan balance, as well as to

increase efforts to expand customer base and further improve the quality of customer service;

- it is necessary to enhance the Bank's operational efficiency, as reflected in the ROE, ROA and C/I ratios, and to improve the quality of the loan portfolio.

The Supervisory Board:

- gives a positive assessment of the fact that the Bank, in keeping with its mission and in partnership with other entities involved in green project financing in Poland, has been taking active steps to further strengthen its position on the market for financing environmental projects and seeking to increase the value of the Bank as a significant entity involved in green project financing in Poland. The Supervisory Board notes that efforts to further expand and strengthen cooperation between the Bank and its strategic shareholder should be continued;
- indicates that:
  - the costs of legal risk related to foreign-currency mortgage loans remain a significant factor affecting the Bank's financial performance, including the results for 2024;
  - the heightened geopolitical risk resulting from the ongoing war in Ukraine and the economic sanctions imposed on Russia and Belarus by the European Union, the United States, and other countries, along with their potential impact on the commodities market, particularly energy market, is a significant factor that currently shapes, and will continue to shape, the macroeconomic and market situation. The situation in the Middle East will be an additional risk factor in the geopolitical landscape;
  - the aggressive monetary tightening by major central banks during 2022 and 2023 represented another significant factor influencing the global economy. Its adverse effects have so far been concentrated in real estate markets and have contributed to restricting credit supply. However, given the scale and pace of interest rate hikes, unseen for several decades, one cannot rule out in this context a sharper and more abrupt slowdown in global economic activity compared to the baseline scenario, which could adversely affect the economic climate in Poland.

## 2. Assessment of the internal control, risk management and compliance systems and the internal audit function

The purpose of these systems is to ensure effective operations of the Bank and their compliance with the applicable laws in all aspects of its business.

The Supervisory Board supervised the operation and effectiveness of these systems at the Bank, with active participation of the Internal Audit Committee and the Risk Committee.

## 2.1. Assessment of the internal control system at the Bank and the BOŚ Group

The purpose of the internal control system is to ensure effective and efficient operations of the Bank, reliability of its financial reporting, compliance with the Bank's risk management framework, compliance of the Bank's operations with the applicable laws, internal regulations and market standards.

The internal control system comprises:

- the control function, designed to ensure compliance with controls, including in particular risk management controls; it covers positions, groups of individuals, or organisational units in charge of the tasks assigned to the function;
- the compliance function, responsible for the identification, assessment, control and monitoring of the risk of non-compliance of the Bank's operations with the law, internal regulations and market standards, and related reporting;
- the independent internal audit function, with responsibility for conducting independent and impartial examinations and assessments of the adequacy and effectiveness of the risk management and the internal control systems, excluding the internal audit function.

The internal control system extends to all areas of the Bank's business, processes, operations, transactions and other activities of business centres, operating branches and the Head Office. It also covers all levels of the Bank's organisational structure within the three lines of defence.

The internal control system is supervised by the Supervisory Board, which assesses the adequacy and effectiveness of the system, in particular on the basis of:

- internal tools specified in the management information system, i.e.:
  - periodic reports and information prepared by the internal audit, compliance, and operational risk functions,
  - periodic information on individual types of banking risk,
  - other periodic information prepared by the Head Office's organisational units, including on the Bank's security, prevention of money laundering and the financing of terrorism, security of the ICT environment, the adequacy and functionality of IT systems, and other aspects;
- external tools, based mainly on the PFSA's Supervisory Review and Evaluation Process (BION)<sup>1</sup>, the findings of thematic inspections carried out by the Polish Financial Supervision Authority (PFSA), the external auditor's reports and opinions on the audit of the Bank's and the BOŚ Group's financial statements, and other reports on control and supervisory activities with respect to the Bank.

The consultative body for the Bank's Supervisory Board is the Internal Audit Committee, whose remit includes:

- monitoring of the adequacy and effectiveness of the internal control system, internal audit function, and compliance function,

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<sup>1</sup> the PFSA's supervisory assessment carried out using the Methodology for the Audit and Supervisory Assessment of Commercial, Affiliating and Cooperative Banks.



- direct supervision of the internal audit function.

Having performed its supervisory tasks and taking into account the recommendation of the Internal Audit Committee, the Supervisory Board rated the effectiveness and adequacy of the internal control system at BOŚ S.A. and the Group in 2023 at 3 ('adequate and effective with reservations') on a scale of 1 to 4, with 1 being the highest score. The rating was the same as in 2022.

The key factors that determined the level of the rating for the internal control system in 2023 included:

- the operation of the Bank's risk management and internal control systems, which are organised at three independent levels (three lines of defence);
- the findings of thematic inspections carried out by the Office of the Polish Financial Supervision Authority, concerning: 1) assessment of aspects of IFRS 9 models, 2) management of the liquidity and financing risk, 3) management of operational risk;
- changes in material processes and the Matrix of Control Functions following the matrix review, including the identification of risks and key controls within these processes and their monitoring;
- review of the Internal Audit Department's Risk Map, which showed that no processes with inadequate and ineffective controls were identified among the 75 processes covered by the Risk Map; out of the 75 processes included in the review, 1% were found to have adequate and effective controls, 68% had adequate and effective internal controls with some shortcomings, and the remaining 31% had adequate and effective controls with reservations;
- findings of the Internal Audit Department's assessment of compliance with the recommendations issued after inspections performed by supervisory and controlling bodies;
- the results of scheduled and non-scheduled audits carried out at the Bank, which identified risk areas and irregularities. Following the identification of irregularities, in 2023 recommendations were issued and steps were taken to mitigate the identified risks;
- assessments of the adequacy and effectiveness of the internal control system in the audited processes during audits conducted by the Internal Audit Department;
- assessments of the compliance risk presented in the Compliance Department's regular reports on compliance risk management at the Bank and the BOŚ Group;
- annual report of the Compliance Department on the implementation of its tasks in 2023;
- regular reports of the Operational Risk Department on the control function in 2023;
- annual report of the Operational Risk Department on the results of the assessment of the control function in 2023;
- annual report of the Internal Audit Department on the adequacy and effectiveness of the Bank's internal control system, including information on the activities of the Internal Audit Department for 2023;
- progress in the implementation of recommendations issued by:
  - the Internal Audit Committee as part of its supervisory activities,

- the Internal Audit Department as part of internal audits,
- the supervisory and controlling bodies following external inspections;
- the results of the PFSA's Supervisory Review and Evaluation Process (BION);
- the external ratings on the Bank (Fitch Ratings and ESG Rating).

No critical irregularities were identified during the audits carried out in 2023.

The post-audit findings as well as the recommendations and their implementation were reported on a quarterly basis to the Bank's Management Board, the Internal Audit Committee and the Supervisory Board.

## 2.2. Assessment of the internal audit function

The Supervisory Board is of the opinion that the internal audit function operates effectively, covering all of the Bank's units and subsidiaries.

This opinion is based on:

- an independent external assessment of the internal audit function, which confirmed compliance of the Internal Audit Department's operations with supervisory requirements, i.e. the PFSA's Recommendation H, the Regulation of the Minister of Finance, Development Funds, and Regional Policy of 8 June 2021 on risk management and internal control systems and remuneration policy at banks, as well as the International Standards for the Professional Practice of Internal Auditing (IIA). In accordance with Recommendation H, the activities of an internal audit function should be subject to an independent external assessment at least every five years. The next assessment of the Internal Audit Department will be carried out in five years;
- results of the annual monitoring of the internal audit function's activities, including:
  - Internal Audit Department Quality Assurance and Improvement Programme for 2022–2024, which included seven tasks to be undertaken by the Department during the period. By 31 December 2023, all tasks were carried out, with some of the activities, which are of a regular nature, set to continue in subsequent years. As part of the Quality Assurance and Improvement Programme, a self-assessment of the audit function was conducted, which demonstrated full compliance with the IIA International Standards and Recommendation H;
  - Internal Audit Department Strategic Plan – following an update of the Framework Development Strategy of BOŚ S.A., the Supervisory Board developed and approved the Internal Audit Department Strategy for 2021–2023. The Internal Audit Department Strategy, aligned with the Bank's Strategy, included 12 tasks planned to be implemented over a three-year period. By 31 December 2023, the Internal Audit Department performed 10 tasks. Some of the tasks are of a regular nature and will be implemented each year. A decision was made not to proceed with two tasks, related to obtaining access to data in the Data Warehouse;
- agreements between the Bank and BOŚ Group companies governing cooperation of the Internal Audit Department with an internal auditor or

person performing the control function at a subsidiary. The scope of such cooperation includes exchange of knowledge, experience and information on audit procedures and methodologies. The Internal Audit Department respects the autonomy and independence of BOŚ Group subsidiaries and does not interfere with their audit plans and programmes. An internal auditor or person performing the control function at a subsidiary may, for purposes related to their tasks, request the Head of the Internal Audit Department to provide expert, methodological or HR support, which is granted unless it could compromise the Department's independence and objectivity in subsequent audits. Under the agreement, the internal auditor of a subsidiary informs the Internal Audit Department of:

- a draft internal audit plan for the next year (or control plans), and the Department may submit additional, non-binding proposals for audit topics to be included in the plan,
- an approved annual internal audit plan, to reduce the overlapping of the Bank's control activities,
- reports received after inspections and assessments carried out at the subsidiary by external supervisory and controlling bodies;
- internal auditors employed at the Bank are suitably qualified and adequately remunerated. To improve their professional skills and raise their competencies, employees of the Internal Audit Department attended a number of seminars and training sessions organised by external institutions, including the Polish Financial Supervision Authority (CEDUR – the Education Centre for Market Participants), the Polish Bank Association, the Association of IIA Poland Internal Auditors and other institutions;
- annual audit planning is based on a comprehensive risk assessment and clearly defines the objectives and scope of the audit work. In line with the adopted internal audit methodology, the annual audit plan for 2023 reflected both the Supervisory Board's and the Management Board's expectations and the PFSA's requirements. The annual audit plan for 2023 covered all relevant matters, enabling an independent and objective assessment of the adequacy and effectiveness of the risk management and internal control systems, including identification of irregularities and inefficiencies of the audited processes as well as risk assessment for individual processes/matters. The post-audit recommendations were monitored and their implementation status was regularly reported to the competent governing bodies – the Bank's Management Board, the Internal Audit Committee and the Supervisory Board. 22 tasks, including two unplanned tasks, were completed in 2023;
- the internal audit function has appropriate powers and organisational structure to enable independent performance of tasks. The internal audit function enables full and free access to all information. Internal audit is an integral and independent part of the Bank's internal control system, positioned in its third line of defence. Organisationally, the Internal Audit Department reports directly to the President of the Management Board and is supervised by the Internal Audit Committee. Decisions on the audit scope and methods, sampling, opinions issued, risk assessment as well as assessment of the adequacy and effectiveness of the risk management and internal control systems are made independently by the Internal Audit Department. The independence of the Head of the Internal Audit

Department is ensured through face-to-face contact with members of the Management Board, the Audit Committee and the Supervisory Board. In addition, the Head of the Department attends all meetings of the Bank's Management Board, the Internal Audit Committee and the Supervisory Board if matters related to the internal control system are to be discussed during such meetings. The Head of the Department may attend, as an observer, meetings of the Bank's committees;

- internal audit operates as an independent component of internal control, positioned within the control system's third line of defence. Decisions on the audit scope and methods, opinions issued, including risk assessments as well as assessments of the adequacy and effectiveness of the risk management and internal control systems were made independently and objectively by the Internal Audit Department. In 2023, employees of the Department did not perform any activities other than assurance or advisory activities (i.e., they did not perform any operational activities other than those required to be performed by the audit function). Furthermore, in the last 12 months the auditors were not employed in the units where they carried out audits, which attests to the absence of conflicts of interest.

### 2.3. Assessment of the compliance function – compliance risk management

Compliance risk management covers all of the Bank's organisational units and subsidiaries.

The Bank ensures compliance with the applicable laws, internal regulations and market standards through:

- 1) the management of compliance risk,
- 2) the control function,

including ongoing horizontal and vertical reviews, horizontal and vertical testing, identification, measurement, control, monitoring and reporting to the Management Board and the Supervisory Board.

In 2023, the compliance risk, understood as the risk of adverse consequences of non-compliance with the applicable laws, internal regulations and market standards, was managed by the Compliance Department, supported by other organisational units of the Head Office, and encompassed:

- 1) identification of the compliance risk, particularly at the stage of developing new products and internal regulations,
- 2) assessment of the compliance risk,
- 3) control and monitoring of the compliance risk,
- 4) reporting on the risk of non-compliance of the Bank's operations with applicable laws, internal regulations and market standards.

The Compliance Department is a separate, independent compliance function, reporting directly to the President of the Bank's Management Board. It is responsible for performing the duties assigned to it within the internal control system and tasks related to the compliance risk management. The compliance function has appropriate powers, including full and free access to all information, and an organisational structure supporting independent performance of its tasks. The Head of the Department regularly attends the

Management Board's meetings, which gives them an insight into the activities of the Bank's management body and opportunity to present their opinions, as well as meetings of the Internal Audit Committee and the Supervisory Board.

This is in line with the requirements of Recommendation H issued by the Polish Financial Supervision Authority and the Regulation of the Minister of Finance, Development Funds and Regional Policy of 8 June 2021 on risk management and internal control systems and remuneration policy at banks.

The basic rules for ensuring compliance through the compliance risk management function and the compliance risk management process are defined in the Compliance Policy of Bank Ochrony Środowiska S.A., prepared by the Management Board and approved by the Supervisory Board, and its implementing acts.

As part of its control functions, the Compliance Department conducted independent horizontal and vertical monitoring of controls designed for the Bank's processes. Where any irregularities were identified as a result of the independent monitoring of controls, follow-up recommendations were issued and corrective measures were agreed with the units responsible for their implementation in order to improve process and risk mitigation effectiveness.

The implementation of recommendations issued by the Department by the relevant units was subject to regular ongoing monitoring.

The results of the activities undertaken by the Compliance Department as part of its control functions were presented to the Management Board and Supervisory Board in periodic compliance risk reports.

Compliance risk management at the Bank aims to:

- 1) prevent any potential legal sanctions, financial losses, or loss of reputation that may result from non-compliance with the laws, internal regulations and market standards;
- 2) consolidate the Bank's image as an institution operating with integrity and legal compliance, reliable, environmentally friendly, credible and responsible in business.

As at 31 December 2023, the Bank identified the following key compliance areas:

- 1) implementing and monitoring compliance with laws and market standards,
- 2) implementing and monitoring compliance with ethical standards,
- 3) accepting/giving benefits or gifts,
- 4) protection of collective interests of customers, including protection against unfair market practices,
- 5) offering products and providing related services, including the implementation of new products (including insurance products), and handling of customer complaints,
- 6) fulfilment of disclosure obligations towards the Bank's customers,
- 7) preventing and managing conflicts of interest,
- 8) trading in financial instruments,
- 9) preventing money laundering and terrorist financing (AML/CFT).

Compliance risk is monitored on a regular basis at the Bank. Information on breaches of laws and applicable ethical procedures and standards is identified and collected at the Bank via a dedicated application.

Information on compliance risk management at the Bank is provided on a regular and timely basis in the form of quarterly reports and annual reports to the Management Board, the Internal Audit Committee and the Supervisory Board.

In 2023, no events occurred that had a significant impact on the level of compliance risk, and the Bank focused its efforts on preventing the materialisation of compliance risk.

As at the end of 2023, the Bank's overall compliance risk level was moderate. A number of incidents were identified during the year, including two incidents generating high risk related to credit risk assessment, and six incidents generating increased risk related to: AML/CFT, thematic inspections carried out by the Office of the Polish Financial Supervision Authority, marketing consents, implementation of Recommendation R, sale of loans, and personal data protection.

The Compliance Department monitored the Bank's compliance with supervisory requirements with respect to:

- Recommendation A – gap analysis and implementation monitoring,
- Recommendation J – gap analysis and implementation monitoring,
- Recommendation S - gap analysis and implementation monitoring,
- Recommendation R – ongoing verification of adaptation measures,
- Recommendation U – ongoing verification of adaptation measures.

The Compliance Department participated in key implementation projects, providing advice on ensuring compliance with the law, internal regulations and market standards in a manner that did not affect its independence.

In addition, in 2023 the Compliance Department actively participated in activities aimed at securing an ESG rating upgrade, which involved:

- 1) participation in preparing the ESG Report content relating to:
  - compliance of the Bank's operations with generally applicable laws and the Bank's internal regulations,
  - principles of ethics,
  - anti-corruption laws,
  - the list and description of due diligence procedures,
- 2) identification of the processes at the Bank that are particularly vulnerable to corruption,
- 3) assistance in preparing a mandatory training course on the Bank's Anti-Corruption Policy and making it available on the e-learning platform; the training is a part of measures designed to ensure that the Bank satisfies the requirements necessary to achieve compliance with ESG standards,
- 4) preparation of a mandatory training course on the Code of Ethics as part of the process of building an ethical culture at the Bank, in particular by promoting ethical conduct among employees and in relations with customers and trading partners. The implementation of the Code of Ethics is one of the steps in the process towards a higher ESG rating for the Bank.

In 2023, the Compliance Department started a review of the internal regulations it owns. Following the review, and to implement the Polish Financial Supervision Authority's recommendations issued following the inspection carried out by the Office of the Polish Financial Supervision Authority in 2022 and to address new challenges facing the Bank, nine internal regulations of the Compliance Department were updated and new regulations on conduct risk management were developed and implemented.

The Compliance Department and the Legal Department regularly issued monthly regulatory alerts to inform the Bank's organisational units about changes in regulations applicable to banking and capital markets, as well as changes in market standards (recommendations and guidelines issued by the Polish Financial Supervision Authority, the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA)).

The Compliance Department was the coordinator of a thematic inspection carried out at the Bank by the Office of the Polish Financial Supervision Authority from 28 August to 3 October 2023. It was responsible for ensuring proper conduct of the inspection.

The Compliance Department completed all the tasks set out in the 2023 Activity Plan, including:

1/systematic activities:

- reporting to the Management Board, the Internal Audit Committee and the Supervisory Board,
- conducting horizontal and vertical reviews;
- conducting horizontal and vertical testing in accordance with an approved quarterly test plan,
- identifying, monitoring, assessing, controlling and analysing the compliance risk.

2/one-off projects:

- preparing information on the Compliance Department's independent review of the implementation of recommendations regarding AML issued after the inspection by the Office of the Polish Financial Supervision Authority, and presenting this information to the Management Board, the Internal Audit Committee and the Supervisory Board,
- review of the Rules for Compliance Risk Management,
- review of material processes and the Matrix of Control Functions at BOŚ S.A.,
- review of the assessment of the compliance risk in the area of conformity of the Bank's internal regulations with the requirements of external regulations and best practices concerning variable remuneration for risk takers,
- coordination of the Supervisory Review and Evaluation Process (BION) in accordance with the Polish Financial Supervision Authority's schedule;
- review of the decisions of the Head of the Department defining the organisation of the internal control system at the Compliance Department,
- verification of the Bank's compliance with the new Recommendation A of the Polish Financial Supervision Authority.

## 2.4. Assessment of the banking risk management system at Bank Ochrony Środowiska S.A.

The Bank has in place a risk management system meeting the supervisory requirements specified in particular in the Regulation of the Minister of Economic Development and Finance, Development Funds and Regional Policy on risk management and internal control systems and remuneration policy at banks, dated 8 June 2021. The objectives and rules of the system are defined in the Banking Risk Management Strategy of Bank Ochrony Środowiska S.A., adopted by the Management Board and approved by the Supervisory Board.

The Supervisory Board oversees the risk management system and assesses its adequacy and effectiveness, in particular by:

- approving and monitoring compliance with the risk tolerance limits defined by the Bank's Management Board,
- approving and monitoring implementation of the risk management strategy adopted by the Bank's Management Board,
- supervising the development, adoption and implementation of policies and procedures underlying the operation of the risk management system at the Bank,
- overseeing the Bank's current and future risk appetite and the allocation of tasks within the Bank to ensure the independence of first-level risk management from the second-level risk management,
- approving the rules for reporting to the Supervisory Board on the types and severity of the banking risk (upon prior submission of the relevant proposal by the Management Board) to facilitate effective supervision of the risk management system at the Bank,
- carrying out annual assessments of the adequacy and effectiveness of the risk management system.

In 2023, the Supervisory Board, with the active involvement of the Risk Committee, supervised the operation and effectiveness of the risk management system and assessed its adequacy, in particular through the use of:

- internal tools, including:
  - reports and information specified in the management information system and individual risk management policies,
  - the principle, resulting from supervisory recommendations, concerning acceptance of the risk appetite and tolerance and key systematic solutions covered by individual risk management policies,
- external tools, including:
  - results of the Supervisory Review and Evaluation Process (BION),
  - results of inspections at the Bank and post-inspection recommendations issued by external bodies, in particular the Office of the Polish Financial Supervision Authority,
  - external auditor's reports and opinions on the audit of the financial statements of the Bank and the BOŚ Group,
  - Fitch Ratings Ltd.'s rating.



Having performed its supervisory tasks and taking into account the positive recommendation of the Risk Committee, the Supervisory Board rated the effectiveness and adequacy of the BOŚ S.A. risk management system in 2023 at 3 ('adequate and effective with reservations') on a scale of 1 to 4, with 1 being the highest score. The rating was the same as in 2022.

The key factors that determined the rating level were as follows:

- findings of the thematic inspection carried out by the Office of the Polish Financial Supervision Authority at the Bank from 28 August to 3 October 2023, covering: 1) assessment of aspects of IFRS 9 models, 2) management of the liquidity and financing risk, 3) management of operational risk; Based on the inspection findings, the Office of the Polish Financial Supervision Authority issued post-inspection recommendations to the Bank;
- findings of the Supervisory Review and Evaluation Process (BION) carried out by the Office of the Polish Financial Supervision Authority as at 31 December 2022, taking into account significant events after its date;
- the Bank's rating and rating outlook from Fitch Ratings Ltd. In October 2023, the Agency confirmed its rating and stable outlook for the Bank, highlighting the Bank's generally stable funding and liquidity position. At the same time, it noted moderate capital buffers despite the still weak asset quality;
- ESG rating issued in December 2023. The Bank received an overall ESG Risk rating of 12.2, marking a further improvement compared with previous years (14.2 in 2022 and 19.9 in 2021). The rating level attests to the effective management and a low risk of an adverse impact of ESG factors on the Bank's operations;
- quality of the loan portfolio – improvement of the share of debts classified in NPL basket 3 and improvement of the cost of risk.

The risk management system assessment process in 2023 also encompassed various other risk management elements, including:

- setting the minimum requirement on own funds and eligible liabilities (MREL) targets for risk-weighted exposure (MREL-TREA) and total exposure (MREL-TEM), effective from 31 December 2023;
- establishing an additional capital charge to absorb potential stress losses of 1.43pp at the stand-alone level and 1.33pp at the consolidated level;
- recognition of Series AB subordinated bonds with a par value of PLN 100 million as Tier 2 instruments, which had a positive effect on the key capital adequacy ratios;
- increasing the provision for legal risk relating to foreign-currency mortgage loans based on estimates of anticipated new lawsuits and number of settlement agreements with customers replacing existing foreign-currency housing loans with PLN-denominated loans in accordance with the terms of the revised Compromise and Settlement Programme, and settlement agreements executed individually, with extended benefits;
- implementation of changes to the limit system:
  - introduction of a strategic limit for credit risk (cost of risk) to align with the Banking Risk Management Strategy; with respect to the

- concentration risk in the area of credit risk – introduction of strategic limits for risk tolerance and risk appetite, based on the Large Exposure Limit, at both the stand-alone and consolidated levels; introduction of the concept of strategic limits in the area of capital adequacy (the following limits are considered as strategic: limits for the Total Capital Ratio (TCR), Tier 1 capital and Common Equity Tier 1 capital, the leverage ratio, MREL (TREA and TEM), the ratio of own funds to internal capital, risk appetite (defined at the internal limits level) and risk tolerance (defined at the external limits level);
- revision of internal limits for credit risk following their review: reduction of the risk limit for entities in the case of which the Bank's total exposure is equal to or exceeds 10% of Tier 1 capital, and maximum limits for the Bank's total credit exposure to a customer and a group of related customers by customer rating class, with a view to mitigating the bank's exposure in the area of large credit exposures and reduce credit portfolio concentration; addition of limits at the consolidated level in areas such as product, currency, customer segment, and industry risk, to enhance the effectiveness of concentration risk management at both the stand-alone and consolidated levels;
  - establishment of strategic limits for the Group's financial risk, concerning liquidity risk (LCR and NSFR limits), trading book market risk (limit for maximum exposure to market risk on a VaR basis), and banking book interest rate risk (limits for maximum sensitivity of net interest income and economic value of equity to  $\pm 200$  bps interest rate movements);
  - Contingency plans:
    - for credit risk – the Bank monitored factors that could potentially trigger development of a contingency plan. In the first quarter of 2022, the average 6M WIBOR (Warsaw Interbank Offered Rate, one of the factors subject to monitoring) increased by over 200 bps compared with the average value of the benchmark during the same period in the previous year. The increase was attributable to the tightening of the National Bank of Poland's monetary policy, and the Bank's analyses did not indicate the necessity for any additional remedial measures. On 13 May 2022, the Credit Risk Management Committee decided not to implement a contingency plan. In 2023, interest rates continued above the average monthly level, influenced by the macroeconomic conditions prevailing since 2022. The results of stress tests carried out in the area of credit risk in 2023 to examine the impact of interest rate growth on impairment losses, continued to be at an acceptable level and did not indicate the need to take remedial action, such as the implementation a credit risk contingency plan;
    - as regards liquidity risk, in order to monitor the sources of liquidity emergencies, the Bank monitored early warning signs. In addition to observing early warning signs, the Bank, as a supplementary measure, controlled the sources of emergencies and used a set of internal limits and/or liquidity warning thresholds which, if exceeded, would require the Bank to apply 'non-standard' liquidity management solutions. In 2023, the liquidity risk contingency plan was updated as follows: (1) the

early warning signs and their thresholds were updated, (2) the early warning sign monitoring tasks were defined in more detail in terms of frequency, the monitoring method and responsibilities of individual key organisational contributors, (3) measures to be taken in the event of liquidity deterioration, liquidity threat and liquidity crisis were updated, (4) the provisions on the responsibilities, scope and procedure for preparing stress test analyses included in the Management Board's resolution on liquidity risk management methods were relocated, (5) the role and impact of stress test analyses on measures taken under the contingency plan were defined in more detail, (6) consistency of the contingency plan with the provisions of the Group Recovery Plan was ensured, in particular with regard to the metrics and thresholds specified for the monitoring of the liquidity situation, (7) the contingency plan was aligned with the provisions of the Liquidity Risk Management Policy with respect to the plan testing, (8) the contingency plan was adjusted to reflect changes in the Bank's organisational structure and changes in the composition of the Liquidity Crisis Committee. In 2023, there was no need to implement the liquidity risk contingency plan;

- as regards capital adequacy, the capital adequacy contingency plan is implemented when: (1) the warning thresholds for capital adequacy or internal capital are exceeded, (2) the external limits are exceeded in a given reporting month in the case of stress tests involving a depreciation of the zloty against the key currencies by 10% with respect to the Total Capital Ratio or Tier 1 capital ratio, (3) the limits forecast for the next six months indicate that external limits will be exceeded. If supervisory capital measures are exceeded, the Bank prepares and implements a capital protection plan. In 2023, there were no grounds for implementing the capital adequacy contingency plan or capital protection plan;
- Group Recovery Plan of the Bank Ochrony Środowiska Group – on 17 December 2021, the Polish Financial Supervision Authority approved the Group Recovery Plan for the BOŚ Group, and on 31 December 2021 the Bank decided to implement it. The Group Recovery Plan replaced the previous Recovery Programme for the period 2018–2021. The purpose of the corrective measures taken under the Group Recovery Plan is to achieve sustainable profitability of the Bank. The Group Recovery Plan was last updated on 29 September 2023, under a resolution of the Bank's Management Board; On 26 January 2024, the Polish Financial Supervision Authority approved the updated Group Recovery Plan;
- Operational risk – in 2023, the Bank's operational risk remained high due to the high level of potential and actual losses resulting from operational risk events related to: (1) recognition of provisions for lawsuits filed by customers against the Bank in connection with foreign currency-linked mortgage loans, (2) unfavourable court rulings or provisions recognised for pending lawsuits unrelated to credit risk. The largest losses on operational risk events that occurred in 2023 involved events at the intersection of operational risk and credit risk. In the case of the credit risk, the capital adequacy requirement is defined, which serves as an additional capital security buffer. In 2023, no operational risk tolerance and appetite limits were exceeded. Key operational risk indicators (KRIs) were closely monitored, and a number of

instances of exceeding warning and critical levels were identified, which, however, did not result in an increase in the level of operational risk in any quarter of 2023. The Bank took appropriate mitigation measures to investigate the causes and minimise losses in the future. In 2023, BOŚ S.A. continued its programme of settlements with customers with respect to the portfolio of foreign currency-linked mortgage loans. As there were no factors affecting the risk level other than the amount of losses due to events, including material one-off events, generating extraordinary and unforeseen losses, the high level of operational risk posed no threat to the Bank's operations. In 2023, the Bank continued its efforts to enhance operational risk awareness among all employees by organising various initiatives, including onboarding training on the Bank's Risk Culture Principles and mandatory e-learning sessions on operational risk management at BOŚ S.A. Another edition of Risk Days was hosted at the Bank, attended by senior management and representatives from various organisational units responsible for risk management.

In addition, with regard to the assessment of the Bank's risk management system, the Supervisory Board took into account the key principles adopted by the Bank in its banking risk management process, including in particular the fact that:

- the Bank's risk management system comprised an extensive set of internal regulations, consistent with the external regulatory regime, adopted by the Management Board and approved by the Supervisory Board, in accordance with the Bank's Articles of Association. The Bank's key document describing the risk management system is the Bank Ochrony Środowiska S.A. Banking Risk Management Strategy. Detailed methods of managing particular types of banking risk are described in dedicated regulations. In 2023, as in previous years, the regulations were reviewed on a regular basis and adjusted to the risk profile and risk appetite, as well as to changes in the regulatory and economic environment in which the Bank operated. The objective of banking risk management at BOŚ S.A. is to maintain risk levels within the accepted risk tolerance and risk appetite limits, thereby protecting shareholder value, ensuring the safety of customers' deposits, and achieving adequate operational efficiency, which includes maintaining the Bank's ability to adapt to changing market, environmental and social conditions, and ensuring the competencies and commitment of the management and other employees, and appropriate quality of management information systems;
- to ensure that the objectives of the risk management system are met, the roles, responsibilities and powers of the governing bodies and individual organisational units involved in the risk management process and interactions between the entities involved in the process were defined (the Bank operated a three-line model of defence against risks and the roles of the Bank's individual units on each line of defence were defined). In particular, the Bank defined the responsibilities of its bodies, i.e. the Supervisory Board, the Risk Committee, the Management Board and Member of the Management Board in charge of the Head Office organisational units responsible for the identification and measurement of material risks, as well as relevant committees of the Bank's Head Office, including in particular: ALCO – the Asset and Liability Management

Committee (and the Liquidity and Market Risk Committee, assisting the ALCO), the Operational Risk Committee, the Credit Risk Management Committee and the Head Office Credit Committee;

- the risk management process at the Bank was supported by a set of quantitative internal risk limits. The set includes internal limits appropriate to the scale and complexity of the Bank's operations, ensuring that the risk remains within an acceptable range. The internal limits are reviewed annually and adjusted to the risk appetite and tolerance approved by the Bank's Supervisory Board;
- the Bank operates a formalised model risk management process. In 2023, the Model Validation Office performed seven validations, involving the following material models: individual behavioural model for retail customers, individual loan valuation model, portfolio loan valuation model, corporate rating model, ML risk model, new model for calculating stable funding levels, model for calculating the provision for legal risk related to foreign-currency mortgage loans. As at the end of 2023, the aggregate risk level of all material models at the Bank rose to the high level, thus exceeding the model risk tolerance set by the Management Board, in accordance with the BOŚ S.A. Model Risk Management Policy; In order to restore the aggregate model risk to a level within the tolerance limits (risk level not higher than moderate), corrective measures are currently being implemented at the Bank in line with the schedule outlined for the implementation of recommendations issued by the Office of the Polish Financial Supervision Authority following the thematic inspection conducted from 28 August to 3 October 2023;
- The Bank had implemented a management information system (MIS) that was tailored to its organisational structure. The MIS served as a crucial tool for controlling banking activities, supporting the Bank's management, particularly in the area of banking risk, enhancing task implementation, and ensuring operational safety and stability;
- The Bank, as the parent, oversaw the risk management system at the BOŚ Group. To establish a standardised Group-wide risk management system, the Bank aims to implement risk management mechanisms at its subsidiaries modelled after the solutions applied by the Bank.